

OFFICE OF
INSURANCE COMMISSIONER

In the Matter of

No. G 03-76

The Financial Examination of
GRANGE INSURANCE ASSOCIATIONFINDINGS, CONCLUSIONS,
AND ORDER ADOPTING REPORT
OF
FINANCIAL EXAMINATION

A Domestic Insurer. _____

BACKGROUND

An examination of the financial condition of **GRANGE INSURANCE ASSOCIATION** (the Association) as of December 31, 2001, was conducted by examiners of the Washington Office of the Insurance Commissioner (OIC). The Association holds a Washington certificate of authority as a fraternal insurer. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and comments and recommendations was transmitted to the Association for its comments on June 17, 2003. The Association's response to the report is attached to this order only for the purpose of providing convenient review of the response.

The Commissioner or a designee has considered the report, the relevant portions of the examiners work papers, and submissions by the Association.

Subject to the right of the Association to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

FINDINGS

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 2 through 26 of the report.

GRANGE INSURANCE ASSOCIATION
Order Adopting Examination Report
July 31, 2003

Mailing Address: P.O. Box 40255 • Olympia, WA 98504-0255
Street Address: 5000 Capitol Blvd. • Tumwater, WA 98501

CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **GRANGE INSURANCE ASSOCIATION** and to order the Association to take the actions described in the Instructions and Comments and Recommendations sections of the report. The Commissioner acknowledges that the Association may have implemented the Instructions and Recommendations prior to the date of this order. The Instructions and Recommendations in the report are an appropriate response to the matters found in the examination.

ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Association is ordered as follows, this being the Instructions and Comments and Recommendations contained in the examination report on pages 3 through 5.

1. The Association is ordered to comply with RCW 48.31B.030(1)(b)(iv) to update the Intercompany Service Agreement to specifically outline the services GIA will perform for Rocky Mountain Fire & Casualty Company and the Mayflower Corporation. This formal agreement should be in written form, outlining the services provided, allocation process, mode of repayment and timelines of the payment. The Association is also ordered to file with the Commissioner, for approval, the Intercompany Service Agreement. Instruction 1, Examination Report, page 3.
2. The Association is ordered to report its cash balance net of outstanding checks to comply with RCW 48.05.073 and in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 2, Paragraph 7. Instruction 2, Examination Report, page 4.
3. The Association is ordered to correctly record guaranty fund assessments as a receivable for future premium tax offsets, to comply with RCW 48.05.250 and in accordance with each state's filing guidelines, and the NAIC Annual Statement instructions. Instruction 3, Examination Report, page 4.
4. The Association is ordered to either obtain a Special Consent from the Commissioner to report the condominium located in Seattle as an admitted asset or to non-admit the condominium in future filings in order to comply with RCW 48.13.160. Instruction 4, Examination Report, page 4.

5. The Association is ordered to review, assess and recalculate the current market prices for rent amounts, charged to its affiliates, to comply with RCW 48.31B.030(1)(a)(i) & (ii) which states the terms and charges for transactions or services rendered within a holding company system be fair and reasonable. Instruction 5, Examination Report, page 5.
6. The Association is ordered to execute custodial agreements with banks, trust companies or security depositories that include the required provisions for indemnifying the Association for lost securities, as presented by the NAIC Financial Condition Examiners Handbook, Part 1-General, IV. Conducting Examinations, Section J. Comments and Recommendations 1, Examination Report, page 5.

IT IS FURTHER ORDERED THAT, the Association file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Association has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 31st day of July, 2003.



MIKE KREIDLER
Insurance Commissioner



SENT VIA FAX

June 30, 2003

Mr. James T. Odiome, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P.O. Box 40255
Olympia, WA 98504-0255

Dear Mr. Odiome,

We have received the draft of reports of examination of Grange Insurance Association and Rocky Mountain Fire and Casualty Company as of December 31, 2001.

After review of the documents we find that we are in substantial agreement with the report with minor modifications. In the interests of accuracy there are several areas we believe need corrections or clarification, which I will address. Our response is as follows:

Your cover letter refers to the examinations for Grange Insurance Association and Rocky Mountain Fire and Casualty Company as of December 31, 2000. We believe the correct date is December 31, 2001 as reflected on the title sheets of the Report of Examination directly above the State Seal for both companies.

GRANGE INSURANCE ASSOCIATION

Scope of Examination:

1. Intercompany Service Agreement – GIA will update the Intercompany Service Agreement as specified in RCW 48.31B 030(1)(b)(iv) and will submit the agreement to the Washington OIC for approval.
2. Outstanding checks – The liability for outstanding checks will be netted with the Cash account in accordance with SSAP #2 and RCW 48.05.073 effective January 1, 2003.

Grange Insurance Group is the industry recognized name for:
Grange Insurance Association • Rocky Mountain Fire and Casualty Company
Corporate Office: 200 Cedar Street • Seattle, WA 98121
Phone: (206) 448-4911 • **Fax:** (206) 777-2151

3. Guarantee Assessment – The Company will record Guarantee Fund Assessments as a receivable for future premium tax offsets where appropriate.

4. Real Estate - Properties occupied by the company – We will either obtain a special consent from the commissioner to report our condominium as an admitted asset, or non-admit the carrying value of the condominium in our financial statements beginning in 2003.

5. Imputed Office Rent – The Company will review, and recalculate if necessary, the current rent expense allocated to Rocky Mountain Fire & Casualty Company for office space.

Comments & Recommendations:

1. Custodial Account and Agreement – We will revise our Custody Agreement with US Bank to comply with the provisions as stated in the NAIC Financial Condition Examiners Handbook.

Page 6. MEMBERS. Paragraph two refers to Article V, Section I of the Bylaws as providing that “the annual meeting of the Association members shall be held at the same time and place as that meeting of the Washington State Grange Convention. Fifty (50) Association members, excluding Directors, shall constitute a Quorum at any annual or regular meeting, with each member having a personal vote (proxy voting not allowed) upon any matter coming before such meeting.” “Regular” meeting should read “Special” meeting.

In April of 1999 at a Special Meeting of the Members held in Yakima, the members voted to amend the Bylaws to allow voting by proxy. “Article V Sec. 4. VOTING. A member of the Association may vote in person or by proxy given another member on any matter coming before the annual or any special meeting of members. An officer or the Association shall not hold or vote the proxy of any member.” In June of 1999, at the annual meeting of members, the members voted to amend the Bylaws to hold the annual meeting at the Home Office on the third Monday of March at 10:00 a.m. “Article V Sec. 1. ANNUAL MEETING. The annual meeting of the members of the Association shall be held either (a) at the Home Office of Grange Insurance Association, 200 Cedar Street, Seattle, Washington, on the third Monday of March at 10:00 a.m., but if such day shall be a legal holiday, the meeting shall be held at the same hour and place on the next succeeding day not a holiday, or (b) at such other place and time which may be within or without the State of Washington, as may be determined by the Board of Directors and specified in the Notice of the Meeting...” These amendments were stamped “filed October 22, 1999 with the Office of the Insurance Commissioner of the State of Washington.

I would recommend paragraph two be changed to read “Article V, Section I, of the Bylaws, further provides that the annual meeting of the Association members shall be held at the Home Office on the third Monday of March. Fifty (50) Association members,

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excluding directors, shall constitute quorum at any regular or special meeting, with each member having a personal vote in person or by proxy upon any matter coming before such meeting.”

Page 9. INTERNAL SECURITY. Conflict of Interest. The President does not review the Conflict of Interest statements. Therefore that section should read “The Corporate Secretary, and Executive Vice President review the Conflict of Interest Statements...”

Page 15. SUBSEQUENT EVENTS 1. Paid in Capital. Lana Monfort’s letter of May 17, 2002 expressed concern about the financial condition of Rocky Mountain Fire & Casualty Company and the desire to monitor RMF&C more closely. The Board authorized an \$8.37 million transfer to RMF&C, which was completed in June. We would like to see “at the current annual level of written premium” added to the end of the first sentence of the paragraph so that it reads “In the Board Minutes of June 21, 2002, it was noted that OIC had notified RMF&C that their surplus was not adequate to continue writing business at the current annual level of written premium.”

Page 15. SUBSEQUENT EVENTS 2. Reinsurance. The retention level was increased to \$350,000 and the premium rates also increased. The sentence should read “The reinsurance limit for the Intercompany reinsurance agreement with RMF&C increased to \$350,000 and the premium rates also increased.”

Page 16. SUBSEQUENT EVENTS 3. New Business from failed Oregon’s Grange. The paragraph states GIA agreed to accept business and agents from GMIC. In the interests of clarity I recommend modifying the sentence to read “ Subsequently, GIA agreed to accept a limited amount of business and 3 agents from GMIC.

Page 16. SUBSEQUENT EVENTS 4. Investments. In the interests of clarity I would add to the paragraph “The Tyco bond has recovered to \$935,000 at the end of 2002.” The paragraph would then read “The Association holds a \$1 million bond in Tyco which has been downgraded to non investment grade by the NIAC Securities Valuations Office (SVO) on 6-28-02 the NAIC assigned a ‘3’ rating and its value was \$769,359. This information was taken from the SVO’s disk distributed as of June 30, 2002. This bond was purchased in 2001 at a discount. The Tyco bond has subsequently recovered to \$935,000 at the end of 2002.”

ROCKY MOUNTAIN FIRE & CASUALTY

Scope of Examination:

1. Intercompany Service Agreement – RMF&C will update the Intercompany Service Agreement as specified in RCW 48.31B 030(1)(b)(iv) and will submit the agreement to the Washington OIC for approval.

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3. Guarantee Assessment – The Company will record Guarantee Fund Assessments as a receivable for future premium tax offsets where appropriate.

Comments & Recommendations:

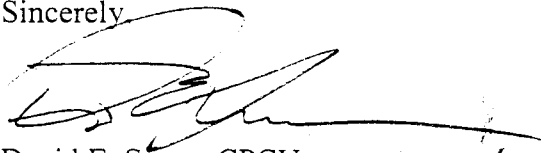
1. Custodial Account and Agreement – We will revise our Custody Agreement with US Bank to comply with the provisions as stated in the NAIC Financial Condition Examiners Handbook.

That is the extent of our comments on the draft report. We thank you for the opportunity to respond.

Attached is a current list of Directors and their addresses where copies of the final report may be sent.

President Ben Metzler's name does not appear on the list because he and his family are involved in a litigated issue with the company and because of this serious conflict of interest is on a leave of absence from his duties as President and Director. Therefore, he should not receive a copy of this report until his conflict of interest is resolved and he can return to his duties.

Sincerely



David E. Suver, CPCU
Corporate Secretary

DES:cac

cc: Ryan M. Dudley, CEO
Sean I. McGourty, CFO
John Jacobsen, OIC

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